



AUDIT COMMITTEE *Agenda*

Date: Dec. 14, 2006
Time: 8:30 a.m.
Location: William Green Building, Second Floor, Room 1

Audit Committee

Denise M. Farkas, CFA
Senior Vice President,
Spero Smith Investment Advisers
representing investments

Edwin McCausland, CFA
President,
Investment Perspectives, LLC
representing investments

Mary Beth Carroll
Vice President,
FirstEnergy
representing self-insured employers

Opening remarks

Chairman's comments.....Denise Farkas

Old business

Approval of previous meeting minutes.....Denise Farkas

New business

1. External Auditor - *audit update*
..... Joseph Patrick, Schneider Downs
2. Risk Management:

Internal Security Committee / ORC 4121.122 (D)
..... Tom Wersell, ISC Chairman

Self Insured Review Panel..... Tracy Valentino

Adjudicating Committee..... James Barnes

Medical Provider Dispute Committee James Barnes
3. RFP Investment Accounting Software (*update*) Tracy Valentino

Adjourn

Adjourn Denise Farkas

The next WCOC
Audit Committee meeting is scheduled for:

Date: Jan. 25, 2007
Time: 8 a.m.
Location: William Green Building,
Second Floor, Room 2

**WORKERS' COMPENSATION OVERSIGHT COMMISSION
AUDIT COMMITTEE**

**THURSDAY, NOVEMBER 16, 2006, 8:00 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215**

Members Present: Denise Farkas, Chairman
Mary Beth Carroll
Edwin McCausland

Other Oversight Commission Members Present:
Michael Koettters
Bill Sopko

Members Absent: None

ROLL CALL

Ms. Farkas called the meeting to order and reported that all members were present

CHAIRMAN'S COMMENTS

Ms. Farkas reviewed the meeting agenda

MINUTES OF SEPTEMBER 28, 2006

Mr. McCausland moved that the minutes of the meeting of September 28, 2006, be approved. Ms. Carroll seconded and the minutes were approved by unanimous voice vote.

NEW BUSINESS

EXTERNAL AUDITOR

Joseph Patrick, Schneider Downs & Co., Inc, reported on the external audit. The audit team consists of a consortium of Schneider Downs, the Auditor of State, Hemphill and Associates, and the BWC Internal Audit Division. Schneider Downs will report to Tracy

Valentino, Chief Financial Officer, on November 30 if it is unable to meet the December 31 due date.

Ms. Farkas asked what would be the impact if Schneider Downs is not able to meet the due date. Mr. Patrick replied that the audit will likely be complete, with the exception of a few unresolved issues.

Mr. McCausland asked if Schneider Downs will issue a management letter. Mr. Patrick replied that the first priority is to complete the audit. Schneider Downs will collect comments for a management letter and later present the letter to the Audit Committee.

STATE STREET

Joe Bell, Chief Internal Auditor; Keith Elliott, Internal Audit Director; and David Logan, Investment Compliance Program Manager, reported on the site visit to State Street Bank and Trust. Mr. Elliott, Mr. Logan, and another auditor will visit on December 11 through 13. BWC is talking with other states, especially Texas, on how they conduct their audits of external investment managers. The Treasurer of State will not participate. After the visit, the audit team will check controls at BWC.

Mr. Koettters reported that there will be a discussion of investment policy and compliance by State Street at the Investment Committee.

QUARTERLY EXECUTIVE SUMMARY

Mr. Bell provided the Quarterly Executive Summary on internal audits. The Report is divided into three parts: comments from audits completed in the first quarter of fiscal year 2007, outstanding unresolved issues from earlier audits, and audits in process.

Mr. McCausland asked if the comments include those from external audits. Mr. Elliot replied that the summary will include these comments going forward.

Mr. Bell reported on recent audits on BWC time reporting and leave usage; setting of the average weekly wage and the full weekly wage; and payment of medical bills. Bill Mabe, Administrator, stated that recommendations from the medical bill audit be included as part of the new contract for Managed Care Organizations (MCOs).

Mr. Bell reported that there are thirty-four comments from prior audits. Of these, fifteen have been addressed and the remaining comments are in the process of resolution.

Concerning current audits, Ms. Carroll asked about the materially large number of hours devoted to MCOs and the external audit. Mr. Bell replied that MCO audits are an ongoing division obligation the calendar year 2006 MCO contract and that line item on the external audit refers to assistance to Schneider Downs.

MANUAL OVERRIDE SPECIAL AUDIT

Mr. Bell reported on the Manual Override Special Audit. It arose in December 2005 from staff comments. Usually, such investigations begin with the Special Investigations Department. Mr. Mabe stated that BWC is now awaiting a directive from the Inspector General on when to release the full report.

REQUEST FOR PROPOSAL ON INVESTMENT ACCOUNTING

Ms. Valentino and Bruce Dunn, Chief Investment Officer, reported on the Request for Proposal (RFP) for a new investment accounting and reporting system. Ms. Valentino reported the currently used system, QED, was adequate from an accounting perspective, but labor intensive. There will be two separate RFPs issued, one for an internal system and one for an outsourced system. The RFP for the internal system will be issued November 17.

Mr. Dunn indicated a new investment accounting and reporting system will increase monitoring and report-writing capabilities for the twenty to thirty new investment managers that are expected to be selected as the new investment allocation strategy is transitioned. .

Mr. Koettters stated that there were vendors highly capable of providing service in a rapid manner. BWC would need to train staff to use all capabilities. The caveat is to weigh outsourcing, versus creating an internal system. Ms. Valentino replied that the investment accounting system will be part of Agenda 07. BWC shares all concerns of the Oversight Commission. Mr. Mabe stated that he needed RFPs to balance the costs and benefits of whether to lease a system or build a system in-house.

WILSHIRE CONTRACT FOR MANAGER EVALUATION

Mark Brubaker, Wilshire Consulting, reported on the contract for special assignment for evaluation of the legacy managers. Mr. McCausland stated that this had been on the table for special assignment for one year and had not been begun or completed. The Oversight Commission had asked for a preliminary evaluation of select group of managers, not to prepare for litigation.

Mr. Barnes reported that the public records laws make it difficult to prevent the evaluation from being subject to public disclosure. If the evaluation is not in anticipation of litigation, then there is no protection from disclosure. Also, BWC will need approval from the Controlling Board for a contract in excess of \$50,000. Mr. Barnes stated that the contract terms submitted by Wilshire would take the contract beyond the \$50,000 threshold if Wilshire's services were needed during anticipated litigation. Mr. Brubaker stated that Wilshire shares these concerns and does not want its work product used in litigation.

Ian Lanoff, Fiduciary Counsel, differed. He stated the evaluation was a necessary investigation by the Oversight Commission to detect problems and to turn findings over to the Inspector General, as was done with the Capital Coin Funds. Research on the managers is at the top of priorities. The Inspector General has extended permission to the Oversight Commission to

look at the managers. If the Inspector General begins an investigation, he will lock-up evidence for the criminal proceedings and lead to public questions on what other scandals have not been disclosed. Mr. Brubaker stated Wilshire can undertake the investigation for less than \$50,000 if it waives certain expenses and needs language in the contract that it is not the primary investigator of the managers. He would go back to Wilshire and reply by November 28. Mr. Barnes stated that a contract can then be completed in a short period of time.

ADJOURNMENT

Ms. Farkas reported that the discussion of the actuarial RFP will be moved to the agenda of the Investment Committee.

There was a motion by Ms. Carroll for adjournment, second by Ms. Farkas, and the meeting was adjourned.

Prepared by: Larry Rhodebeck, BWC Attorney
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December 7, 2006

BWC/IC Internal Security Committee

Operating Procedures

Revised October 11, 2006



Ohio Bureau of Workers' Compensation
Governor, Bob Taft
Administrator/CEO, William E. Mabe



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INTERNAL SECURITY COMMITTEE

Authority

Section 4121.122 (D) of the Ohio Revised Code, The Industrial Commission of Ohio and the Administrator of the Ohio Bureau of Workers' Compensation shall appoint a six-member Internal Security Committee composed of three Bureau employees appointed by the Administrator and three Commission employees appointed by the Commission. The Administrator shall supply to the committee the services of trained investigative personnel and clerical assistance necessary to the committee's duties. The Committee shall investigate all claims or cases of criminal violations, abuse of office, or misconduct on the part of the Bureau or Commission employees and shall conduct a program of random review of the processing of workers' compensation claims.

The Committee shall deliver to the Administrator, the Commission, or the Governor any case for which remedial action is necessary. The committee shall maintain a public record of its activities, ensuring that the rights of innocent parties are protected, and, once every six months, shall report to the Governor, the General Assembly, the Administrator, and the Commission, the Committee's findings and corrective actions subsequently taken in cases considered by the Committee.

Internal Security Committee members will be selected and appointed by the Administrator and the Chairman and will serve on the committee for two years. At the end of the second year, the member can be selected for another term or a replacement will be named by either the Administrator or the Chairman. The selected member should hold a position in agency management that allows them to make decision on behalf of the Administrator and Chairman.

The Internal Security Committee shall choose one of its members as Chairman. The election of a new Chairman will take place at the last meeting of the calendar year. The Chairman's term will run for one calendar year, unless the committee chooses to re-elect Chairman. The Chairman's term will begin on January 1 and end December 31 of the same calendar year, unless the committee chooses to extend term.

Responsibilities

The Committee is responsible for:

- The Committee shall investigate all claims or cases of criminal violations, abuse of office, or misconduct on the part of the Bureau or Commission employees
- Deliver to the Administrator, the Industrial Commission, or the Governor, any case in which remedial action is necessary
- Ensure the rights of innocent parties are protected.
- Maintain a public record of its activities. The Committee will also have policies/procedures regarding “Public Records” request.
- Report once every six months to the Governor, the Speaker of the House, the President of the Senate, the Administrator, and the Industrial Commission, the Committee’s findings and the corrective actions subsequently taken in referrals reviewed/closed by the Committee.
- Conduct a program of random review of the processing of workers’ compensation claims.
- The committee will produce a series of educational notices to be sent to all BWC/IC employees, advising them of the roles and responsibilities of the committee and how an allegation can be made and that the source of the allegation can remain anonymous. The committee will also work with other agencies such as; the Ohio Inspector General, Ohio Ethics Commission and the Disciplinary Counsel to ensure that matters involving BWC/IC employees that are referred to those agencies can be referred to the committee for investigation

Meetings

1. Pursuant to Section 121.22 of the Ohio Revised Code, all ISC meetings at which official business is deliberated and/or resolutions are adopted, are open to the public, except for the statutory exemptions, set forth, under Section 121.22 (G), for matters that may be discussed in executive session.
2. The Committee will provide advance notification regarding meetings and scheduled agendas. Notices are posted on public bulletin boards at the Bureau and the Industrial Commission.
3. Notice of meeting includes the date, time and location of the meeting, and a telephone number that can be contacted for further information.
4. Meeting notices are issued not less than ten (10) days prior to any regular meeting and not less than twenty-four (24) hours prior to a special meeting.
5. A quorum of the ISC shall consist of at least a majority of the members appointed to the ISC.
6. The committee will meet monthly to discuss and review allegations received by the committee or Internal Affairs. During this monthly meeting, the committee will also discuss assigning case investigations, review current cases and discuss potential referrals to outside agencies. Once every quarter, the committee will meet to review and discuss cases that require closure by the committee. The committee will also meet on an as needed basis should a meeting be required between regularly scheduled meetings.

The ISC, by majority vote of a quorum of the ISC, may hold an executive session. Such sessions are for the sole purpose of consideration of matters permitted by Section 121.22 (G). They are held only at any regular scheduled meetings or duly publicized special meetings. Executive sessions are held on all pending referrals consisting of but not limited to Criminal Violation, Abuse of Office, Employee Misconduct, Fraud and Theft.

SECTION #2 INVESTIGATIONS

Initial Allegation/Referral

Complaints or allegations of Criminal Violation, Abuse of Office, Employee Misconduct, Fraud and Theft, (other allegations of malfeasance, misfeasance, or nonfeasance) by BWC or IC personnel are received from a wide range of sources. A referral can be made by telephone, sent by fax, submitted by email, in person, Inter Agency Mail or by US Mail and the source of the referral can remain anonymous.

The Internal Affairs Department will notify the committee immediately of any and all allegations they might receive.

When an allegation is received, the Committee or Internal Affairs will provide the allegation information to the assigned clerical staff of the committee and that staff person will record the information and should include but is not limited to; date referral received, the title of the referral, the type of referral, the location (if known), the investigator/special agent assigned, and a brief description of the issues are noted. (Attachment A: Flowchart)

A case folder on each allegation will be prepared for the committee. The folder will contain the referral title, complete allegation information, case number, source information if available and any other documents necessary to determine if an investigation is warranted.

The committee members will then review the referral to determine if reasonable cause for investigation exists. If, it is determined that an investigation is warranted, then the committee will assign the case to be investigated and appropriate notifications will be made to the Chairman and Administrator. The assigned investigator will develop an action plan that outlines the steps necessary to conduct a through investigation and keep the committee members updated on an ongoing basis as to their investigative steps taken. The committee will expect regular case updates. The assigned investigator will also provide updates every 30, 60 and 90 days as to the status of the investigation. Committee members can at any time call the assigned investigator for a case update. At the conclusion of an investigation, the case will be submitted to the committee for review, closure and referral to an outside agency for further action if necessary. At no time will a referral be made to an outside agency unless the committee has approved the referral. The committee will make that decision during an ISC meeting.

Administrative Referrals

Referrals in which action is recommended, but does not warrant criminal prosecution, should be referred to the appropriate appointing authority. Preparation of a case to be referred internally for Administrative consideration should include a cover memorandum with case attachments.

Closed Referrals

After reviewing all the available evidence the Committee must vote on specific action to be taken in an open meeting pursuant to Section 121.22 (H) ORC.

Criminal Prosecution

The Committee shall deliver to the Administrator, the Chairman, or the Governor any case for which remedial action is necessary.

Referrals for prosecutorial consideration will be approved by the committee prior to being forwarded to an outside department or agency.

Preparation of a case to be prosecuted should include a cover letter and summary to the AG's office. The report of investigation, with attachments, may also be included. The prosecution package should be delivered in person by the assigned investigator/special agent, allowing the investigator/special agent to answer any questions the AG's office may have.

After the AG has reviewed the report and attachments, additional information may be requested.

SECTION #3 RANDOM REVIEWS

The committee shall conduct random reviews of the processing of workers' compensation claims, as noted in Section 4121.122 (D), Ohio Revised Code.

SECTION #4 RECORDS/ REPORTING

Scope

According to Section 4121.122 (D), Ohio Revised Code, the ISC shall maintain a public record of all its activities, ensuring that the rights of innocent parties are protected.

Once every six (6) months, the Committee submits a report of its findings and actions to the Governor, the General Assembly, the BWC Administrator, and the Chairman of the Industrial Commission.

Records

Records of all investigations, deliberations, decisions, and other Committee actions are maintained with the assigned clerical support person on behalf of the Committee. Retention of all records is maintained in accordance of the Records Retention Schedule number 855-323 (Attachment B: Record Retention Schedule).

Public Records Request

- Request an investigative file:
 - Once an investigation is closed by the Internal Security Committee, pursuant to Section 4121.122 (D), Ohio Revised Code, the investigative documents become “Public Records” and can be requested by interested parties.
 - Request for “Public Records”
 - All requests will be recorded for the committee by the assigned clerical support.
 - The committee will pull closed investigative file and forward to:
 - » Ellen Wentzel
 - » Assistant Law Director
 - » William Green Level 25
 - » 614.466.0501

Ellen Wentzel will review investigation and approve documents for release to comply with Public Records Request. She will then forward investigative file and PR request

back to the committee. Ellen will also notify Teresa Arms, Supervisor with Agency Reporting and the Executive Director of the Commission of the request.

Reporting

The committee prepares a report semi-annually, for distribution as noted above. Reports are submitted in June and December of each year.

Included in each report are all referral types (and total received), assigned referral number and a brief description of referral.

NOTE: Specific names are deleted from reported cases in order to ensure that the rights of innocent parties are protected, as mandated by Section 4121.122 (D), Ohio Revised Code.



for **Contractors/Vendors** for **Government Entities** for **State Employees** for the **Public**

View Schedule

- Return to Welcome
- Schedule
 - **New**
 - Agency Specific
 - General
 - Pending(71)
 - General
- Schedule List
- Disposal
- Search
- Agency/Divison/Section List
- Login Help
- Site Map**
- Search**
- DAS Home**
- State Home**
- Agency Contacts**

Series
Authorization No: 855-0323 **Agency:** BWC **Division:** LAWS **Section:** ISEC **Revision:** 1

Agency Series No.: ISEC-01 **Record Series Title:** Internal Security Case Files
Record Series Description: Internal Security investigative files are subject files of various internal BWC investigations. They include "skeleton" files, pending files and closed files. All information in these files are confidential.
Agency Web Link:

Confidential Description **Vital Description**

These files contain personal information about the subject of an investigation, such as social security numbers and home addresses. They also contain allegations of possible fraud and evidence of possible fraud.

Media	Retention Period	Retention Justification	Method of Disposal
Paper	Retain in IA until available storage is exhasuted then transfer to offsite storage until case files are obsolete or until statutory period (10 years) has elapsed, then destroy.	Due to the type of confidential records retained in IA these files have to be maintained until obsolete. ORC 4121.122 (D)	Shred

Approvals:

Created		Date: 9/28/2001
Approved	Aniko Boros, Records Coordinator	Date: 9/28/2001
Approved	Cathy Garrett, Records Officer	Date: 3/15/2002
Approved	Michael Hardenbrook, Record Administrator	Date: 3/21/2002
Approved	Charles Arp, State Archivist	Date: 3/27/2002
Approved	Martin Meeks, State Auditor	Date: 3/27/2002

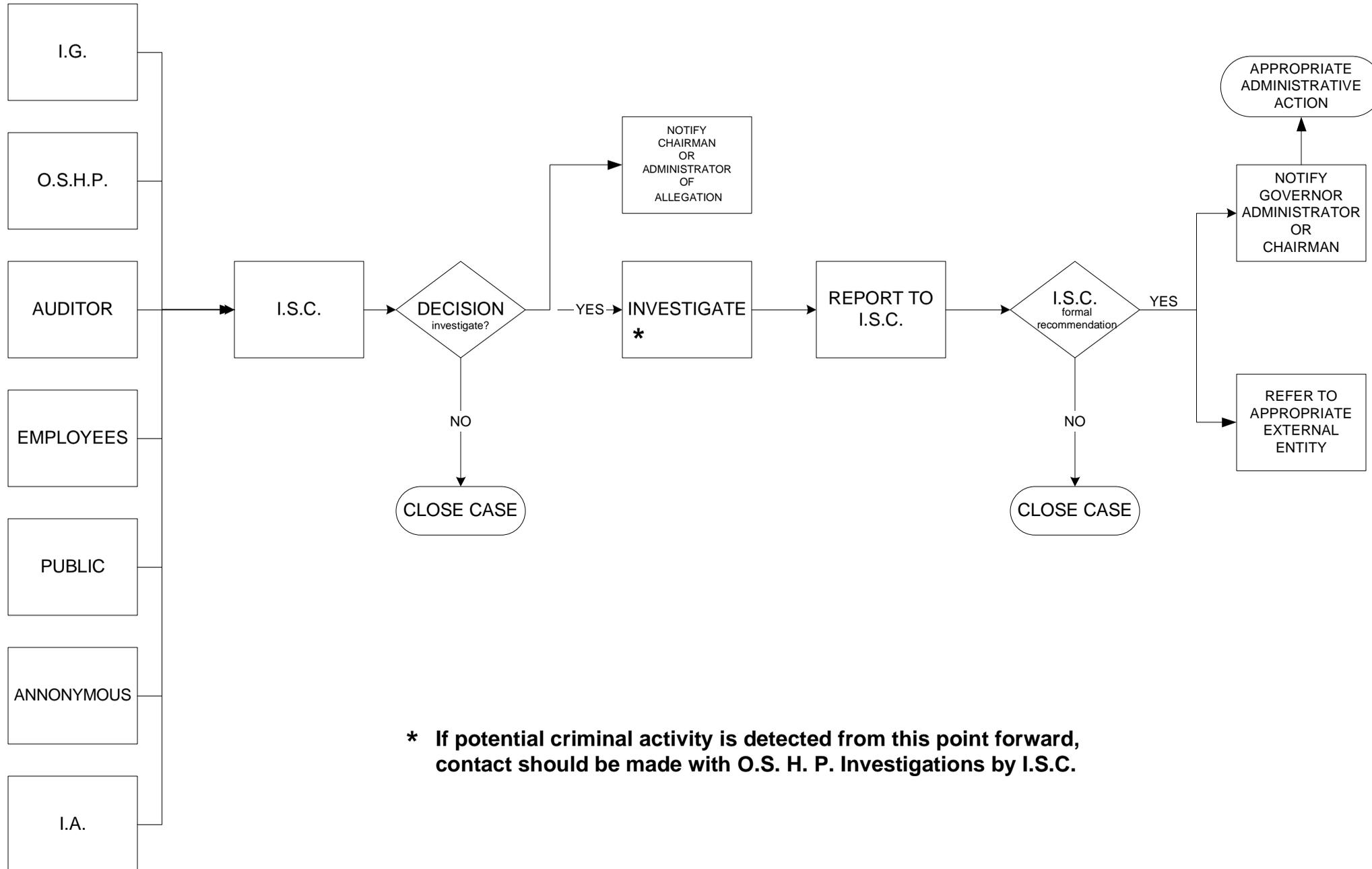
Notes:

Note Date	Note Description	User
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INPUTS

JOINT INTERNAL SECURITY COMMITTEE

OUTPUTS



*** If potential criminal activity is detected from this point forward, contact should be made with O.S. H. P. Investigations by I.S.C.**